

FDIC State Profile

Winter 2005

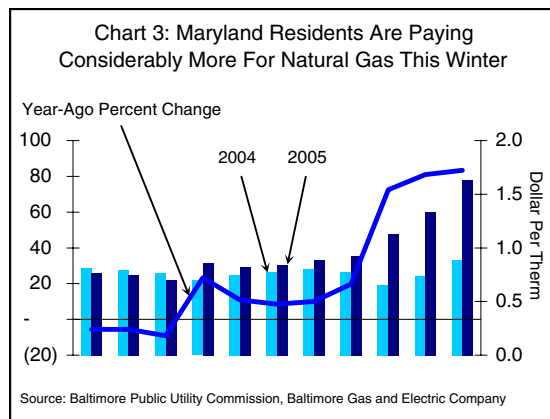
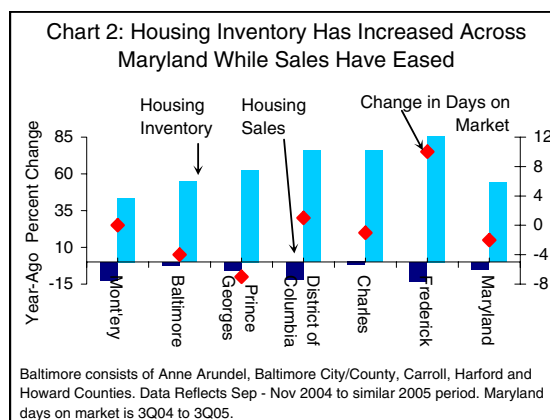
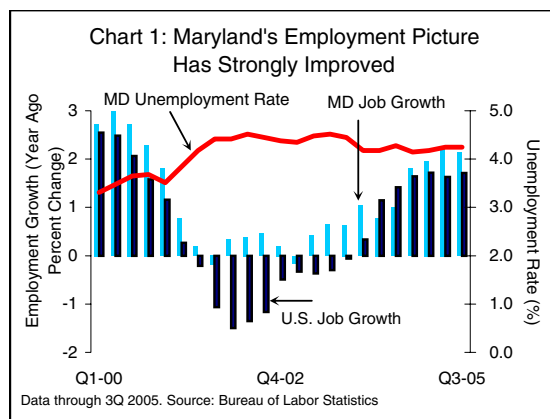
Maryland and Washington, D.C.

Maryland's employment picture remained favorable with above-average, broad-based job growth.

- With ten consecutive quarters of job growth and a low unemployment rate, employment conditions in Maryland remained robust through third quarter 2005 (see Chart 1). At a record employment level of 2.6 million, almost every sector in the state reported job growth.
- The federal government continues to be a key driver of Maryland's economy. In addition, favorable in-migration patterns, particularly around Washington, D.C., have boosted demand for business, health care, educational, and retailing services. However, job growth in the construction sector has declined from 2004 levels.
- All of Maryland's metropolitan areas experienced positive employment growth in third quarter 2005. After a year of job losses, **Cumberland** recorded growth as gains in retailing, education, and health services offset continued manufacturing job losses.

Maryland's housing boom shows signs of moderation this winter.

- At 19.3 percent, home price appreciation in Maryland continued at a strong pace in the third quarter (5th highest in the nation), though appreciation was down following a cyclical high of almost 24 percent in the prior quarter. Except for Cumberland, home price appreciation rates eased slightly across Maryland's housing markets.¹
- Since peaking in mid-2003, housing affordability has declined in the state at a greater rate than the nation, falling 28 percent compared with 13 percent for the United States.² Homes near Washington D.C. and in surrounding areas remained less affordable than the national average, while other areas in the state were more affordable.
- Reduced affordability and increasing home prices may be contributing to a moderation in housing demand across the state this winter. Local data indicate that, on a



¹Office of Federal Housing Enterprise Oversight.

²Moody's Economy.com.

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year-over-year basis, the inventory of unsold homes increased, while housing sales were flat in many parts of the state in the third quarter 2005 (see Chart 2).³ Listing periods, however, remained tight.

Higher energy costs this winter could strain the state's consumers.

- Consumer costs for heating fuels are expected to be higher this winter. Increases in natural gas prices during the fall 2005 ranged between 40 and 80 percent compared to 2004 levels (see Chart 3).⁴
- The combination of energy costs and rising interest rates may stress some of the state's consumers. Personal bankruptcies increased nationally and in Maryland prior to the enactment of the new bankruptcy law in October 2005. Although the state's per capita personal bankruptcy rate increased 28 percent in the third quarter, the largest quarterly increase since 1997, Maryland's rate remained below the U.S. average.

Profitability of the area's banks improved.

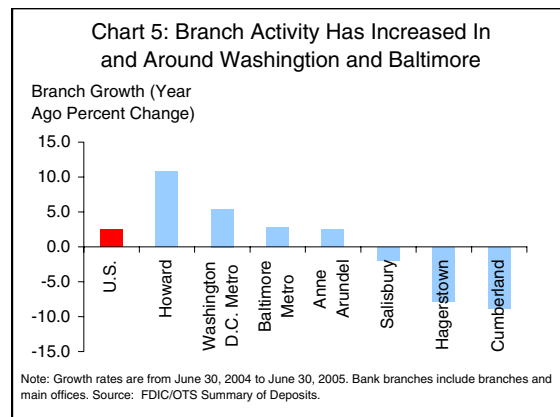
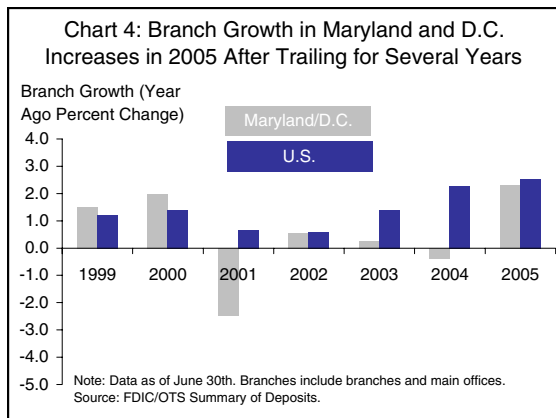
- The profitability (return on assets) of institutions headquartered in Maryland and the District of Columbia improved during third quarter 2005 compared with the similar 2004 period. The median net interest margin slightly improved, while overhead and provision expenses (as a percent of average assets) were stable.
- Increases in bank funding costs have lagged rises in short-term rates. Between third quarter 2004 and third quarter 2005, funding costs increased 46 basis points compared with a 200 basis-point increase in the Federal funds rate.
- Construction and development (C&D) loans posted the largest percentage growth—over 30 percent—among loan categories in third quarter 2005. The median concentration of C&D loans to capital was more than double the level of five years ago.

Branch growth has steadily increased and follows trends in economic activity.

- Annual Summary of Deposit data collected by the FDIC shows increased growth in bank branches in Maryland and Washington, D.C. over the past year following minimal increases in the early 2000s (see Chart 4). The brick-and-mortar branch has re-emerged as banks compete for proximity to retail and commercial customers, which

has offset industry consolidation and on-line banking's effect on branch growth.⁵

- Branch growth has been strong in the Washington, D.C. and **Baltimore** metropolitan areas (see Chart 5).⁶ While the District of Columbia is home to 11 percent of Maryland/D.C. branches, it represented 28 percent of branch growth during the past year. Areas along the I-95 corridor such as **Howard** and **Anne Arundel** counties also have recorded higher branch growth.
- Population per branch was greatest in and around the District of Columbia and in Baltimore. The District's daytime population swells by an estimated 410,000 people, or 72 percent, providing a potentially larger customer base for bank branches.⁷



³Metropolitan Regional Information Systems, Maryland Dept. of Housing and Community Development, Maryland Association of Realtors.

⁴Maryland Public Service Commission, Natural Gas Fact Sheet.

⁵Data as of June 30, 2005. For more information, see <http://www2.fdic.gov/sod/>. Branches include branches and main offices.

⁶The Washington D.C. metropolitan area includes parts of Maryland, Virginia and West Virginia.

⁷U.S. Census Bureau.

Maryland and Washington, D.C. at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.2%	2.2%	1.0%	1.2%	0.4%
Manufacturing (5%)	-3.5%	-2.6%	-1.3%	-2.9%	-6.1%
Other (non-manufacturing) Goods-Producing (7%)	1.0%	1.1%	4.9%	4.7%	1.2%
Private Service-Producing (69%)	3.1%	3.0%	1.3%	1.5%	1.0%
Government (18%)	1.0%	1.4%	-0.8%	-0.3%	0.2%
Unemployment Rate (% of labor force)	4.3	4.3	4.3	4.2	4.5

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.5%	6.1%	6.7%	3.9%
Single-Family Home Permits	6.5%	18.8%	-0.5%	-5.8%	-1.4%
Multifamily Building Permits	-8.2%	13.3%	76.9%	26.8%	11.4%
Existing Home Sales	-3.0%	0.9%	11.9%	16.4%	2.7%
Home Price Index	19.3%	23.7%	22.5%	18.3%	10.6%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.84	5.31	4.56	5.32	6.55

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	121	120	120	122	127
Total Assets (in millions)	51,367	50,377	46,376	47,124	43,562
New Institutions (# < 3 years)	8	7	5	6	3
Subchapter S Institutions	4	4	4	4	2

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.88	0.81	1.09	0.93	1.14
ALLL/Total Loans (median %)	0.91	0.92	0.94	0.95	1.00
ALLL/Noncurrent Loans (median multiple)	2.50	3.22	2.12	2.23	1.82
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.01	0.04

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.63	9.70	9.20	9.27	9.30
Return on Assets (median %)	0.97	0.94	0.92	0.83	0.83
Pretax Return on Assets (median %)	1.48	1.34	1.34	1.17	1.16
Net Interest Margin (median %)	3.92	3.95	3.82	3.74	3.67
Yield on Earning Assets (median %)	5.85	5.69	5.42	5.31	5.54
Cost of Funding Earning Assets (median %)	2.09	1.86	1.63	1.65	1.93
Provisions to Avg. Assets (median %)	0.03	0.02	0.03	0.06	0.05
Noninterest Income to Avg. Assets (median %)	0.48	0.47	0.49	0.49	0.60
Overhead to Avg. Assets (median %)	2.73	2.75	2.73	2.75	2.68

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	70.4	70.7	70.3	69.6	66.8
Noncore Funding to Assets (median %)	22.3	21.8	19.9	20.5	18.9
Long-term Assets to Assets (median %, call filers)	17.9	18.7	19.8	19.0	20.6
Brokered Deposits (number of institutions)	40	37	30	34	22
Brokered Deposits to Assets (median % for those above)	4.1	3.0	5.1	3.7	5.3

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	53.6	60.4	57.6	65.6	55.2
Commercial Real Estate	257.7	250.6	245.6	242.6	237.1
<i>Construction & Development</i>	57.9	48.7	51.8	50.8	41.9
<i>Multifamily Residential Real Estate</i>	3.0	2.5	3.4	2.9	2.3
<i>Nonresidential Real Estate</i>	140.6	139.6	130.0	136.4	134.5
Residential Real Estate	308.6	324.3	319.4	318.8	327.9
Consumer	13.6	16.0	19.8	19.8	19.5
Agriculture	0.3	0.6	2.0	1.3	3.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	103	130,985	< \$250 million	77 (63.6%)
Baltimore-Towson, MD	90	43,864	\$250 million to \$1 billion	35 (28.9%)
Hagerstown-Martinsburg, MD-WV	16	2,798	\$1 billion to \$10 billion	9 (7.4%)
Cumberland, MD-WV	7	826	> \$10 billion	0 (0%)